TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL MEMORANDUM

HB 2177 – SB 2184

April 4, 2016

SUMMARY OF ORIGINAL BILL: Prohibits a healthcare payor, when determining any gain-sharing or risk-sharing for a physician, from attributing to the physician any costs for healthcare services that were provided by individuals or entities outside of the control of the physician or the physician's group practice if including the costs reduces a physician's gain-sharing amount or increases a physician's risk-sharing amount. These restrictions do not apply to a physician who is providing healthcare services in the TennCare program pursuant to a freely negotiated risk-sharing contract between the healthcare payor and an accountable care organization, clinically integrated network, or other similar entity organized to provide such healthcare services on a risk-sharing basis.

FISCAL IMPACT OF ORIGINAL BILL:

Increase State Expenditures – Exceeds $3,501,700/FY16-17
Exceeds $3,666,300/FY17-18
Exceeds $3,871,100/FY18-19 and Subsequent Years

Increase Federal Expenditures – Exceeds $6,498,300/FY16-17 and
Subsequent Years

Increase Local Expenditures – Exceeds $11,300/FY17-18
Exceeds $25,400/FY18-19 and Subsequent Years

SUMMARY OF AMENDMENT (015002): Deletes all language of the original bill. Requires a healthcare payor using an alternative payment system to provide an end-of-year report to any physician against whom the payor assesses a penalty for cost of care or quality of care that is unacceptable. Prohibits a physician who receives claims data from distributing any negotiated rates data to other providers who render care with respect to any episode of care covered in the data or to any other persons.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Increase State Expenditures - $455,200/FY16-17

Increase Federal Expenditures - $844,800/FY16-17

Other Fiscal Impact – Any impact to rates from the sharing of negotiated rates will not be recognized until January 2018. A one-percent increase in rates is estimated to be $12,757,800 in FY17-18 ($5,379,400 state, $7,278,100 federal, and $100,300 local) and $25,515,700 in FY18-19 and subsequent years ($10,758,800 state, $14,556,200 federal, and $200,700 local).

Assumptions for the bill as amended:

- The proposed legislation requires a healthcare payor that is a Managed Care Organization (MCO) for TennCare to provide end-of-year reports to any physician assessed a penalty. MCOs will incur costs to implement the new detailed reports.
- The one-time increase in expenditures associated with MCOs updating systems to provide the new claims-level reports is estimated to be $1,300,000. Medicaid expenditures receive matching funds at a rate of 64.983 percent federal funds to 35.017 percent state funds. Of the $1,300,000, $455,221 ($1,300,000 x 0.35017) will be state funds and $844,779 ($1,300,000 x 0.64983) will be in federal funds.
- The proposed legislation also requires any payor that is an MCO for TennCare using any alternative payment system to disclose claims-level information to physicians if the provider is required to make risk sharing payments.
- Requiring payors to disclose negotiated prices of many services will result in providers having the ability to negotiate higher rates.
- The first calendar year in which end-of-year reports will be provided is 2016. Due to a six-month claims runout period, the claims-level information for 2016 will not be available until July 2017; therefore, the first end-of-year reporting will not be provided until August 2017.
- Based on information provided by the Division of Health Care Finance and Administration, a one percent increase in claims costs will result in an increase in expenditures of $22,400,000 annually.
- While contract updates occur throughout the year, the majority of contracts renew January 1; therefore, the first change to negotiated rates as a result of claims-level information being available to providers will be January 1, 2018, resulting in six months of expenditures in FY17-18.
- Medicaid expenditures receive matching funds at a rate of 64.983 percent federal funds and 35.017 percent state funds.
- The FY17-18 increase would be $11,200,000 ($22,400,000 x 0.50). Of this amount, $3,921,904 ($11,200,000 x 0.35017) will be state funds and $7,278,096 ($11,200,000 x 0.64983) will be federal funds.

- The increase in expenditures in FY18-19 and subsequent years is estimated to be \$22,400,000. Of this amount, \$7,843,808 (\$22,400,000 x 0.35017) will be state funds and \$14,556,192 (\$22,400,000 x 0.649836) will be federal funds.
- Based on information provided by the Department of Finance and Administration, Divisions of Benefits, the proposed legislation will result in a one percent increase in carrier's medical claims.
- In 2014, the total amount of claims was \$501,723,536. Assuming the one percent increase, it is estimated claims will increase by \$5,017,235 (\$501,723,536 x .01) annually.
- Of the total projected loss of savings, 52 percent would be realized by the State Employee plan, 40 percent by the Local Education Plan, and 8 percent by the Local Government Plan.
- According to Benefits Administration, the state contributes 80 percent of member premiums resulting in an increase in state expenditures of at least \$2,087,170 (\$5,017,235 x 0.80 x 0.52).
- According to Benefits Administration, the state contributes 45 percent of instructional member premiums (75 percent of Local Education Plan members) and 30 percent of support staff member premiums (25 percent of Local Education Plan members) resulting in an increase in state expenditures of at least \$827,844 [(\$5,017,235 x 0.40 x 0.75 x 0.45) + (\$5,017,235 x 0.40 x 0.25 x 0.30)].
- The total increase in expenditures for Benefits Administration is estimated to be \$2,915,014 (\$2,087,170 + \$827,844). Therefore, the increase to state expenditures for Benefits Administration is estimated to be \$1,457,507 (\$2,915,014 x 0.50) in FY17-18 and \$2,915,014 in FY18-19 and subsequent years.
- The state does not contribute to the Local Government plan. Participating agencies and their employee's expenditures are estimated to be \$401,379.
- The average local government contribution to member premiums is unknown. It is estimated that participating local governments contribute 50 percent to member premiums and that participating local government expenditures will increase by at least \$200,689 (\$401,379 x 0.50) in FY18-19. Half of this increase, or \$100,345, will be realized in FY17-18.
- The total increase in state expenditures in FY17-18 is estimated to be \$5,379,411 (\$3,921,904 + \$1,457,507).
- The total increase in state expenditures in FY18-19 and subsequent years is estimated to be \$10,758,822 (\$7,843,808 + \$2,915,014).

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Krista M. Lee

Krista M. Lee, Executive Director

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